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Cross-Defendant CHURCH OF SCIENTOLOGY  
INTERNATIONAL

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SEP 06 1994  
HUB LAW OFFICES

11 SUPERIOR COURT OF THE STATE OF CALIFORNIA

12 FOR THE COUNTY OF MARIN

13 CHURCH OF SCIENTOLOGY ) CASE NO. 157 680  
14 INTERNATIONAL, a California not- )  
for-profit religious corporation; ) CHURCH OF SCIENTOLOGY  
15 Plaintiffs, ) INTERNATIONAL'S SETTLEMENT  
16 ) CONFERENCE STATEMENT  
vs. )  
17 )  
18 GERALD ARMSTRONG; MICHAEL WALTON; )  
et al., )  
19 Defendants. ) DATE: September 19, 1994  
TIME: 9:00 a.m.  
DEPT: 1  
20 GERALD ARMSTRONG, )  
21 Cross-Complainant, ) TRIAL DATE: September 29,  
1994  
22 vs. )  
23 CHURCH OF SCIENTOLOGY )  
INTERNATIONAL, a California )  
24 Corporation; DAVID MISCAVIGE; )  
DOES 1 to 100; )  
25 Cross-Defendant. )

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1 FACTS AND LEGAL ISSUES IN DISPUTE

2 **A. The Breach of Contract Case**

3 Armstrong and the Church entered into an agreement in 1986  
4 ("the Agreement") which was intended to end a substantial period  
5 of litigation between them. [Ex. A to Exhibit B.] Armstrong  
6 received approximately \$800,000 as part of the settlement. The  
7 Agreement inter alia required Armstrong to maintain  
8 confidentiality concerning "his experiences with the Church of  
9 Scientology and any information he may have concerning the Church  
10 of Scientology, L. Ron Hubbard or any [related individual, or  
11 entities]." It also provided that breach of the confidentiality  
12 agreement would result in liquidated damages in the amount of  
13 \$50,000 per breach. In addition, the Armstrong agreed not to  
14 voluntarily aid persons or entities litigating or contemplating  
15 litigating against the Church or related entities.

16 Armstrong began breaching the Agreement by helping anti-  
17 Church litigants in early 1990. By February, 1992, when the  
18 Breach case was originally filed, he was employed as a paralegal  
19 for attorney Ford Greene, assisting him in litigating a case  
20 brought against the Church and others by former parishioners  
21 Vicki and Richard Aznaran. He had also provided declarations  
22 describing his experiences in Scientology, in violation of the  
23 Agreement, to the Aznarans and to another anti-Scientology  
24 litigant, Joseph Yanny.

25 On March 5, 1992, the Church obtained a temporary  
26 restraining order from the Marin Court. Armstrong, a Marin  
27 resident, successfully persuaded the Court to transfer the case  
28 to Los Angeles. On May 28, 1994, the Los Angeles Court entered a

1 preliminary injunction, enjoining Armstrong from providing aid to  
2 litigants such as the Aznarans and Yanny. [Ex. C.] Armstrong  
3 appealed the injunction, arguing that the Agreement's provisions  
4 violated public policy and were not enforceable. The case was  
5 stayed pending Armstrong's appeal, which was denied by the Court  
6 of Appeal, Second District, Division Four on May 16, 1994. [Ex.  
7 D.]

8 While the case was stayed, however, Armstrong continued to  
9 breach the agreement. In fact, in June, 1992, Armstrong  
10 proclaimed,

11 I mean, I have, I have absolutely no intention of  
12 honoring that settlement agreement. I cannot. I  
13 cannot logically. I cannot ethically. I cannot  
14 morally. I cannot psychically. I cannot  
15 philosophically. I cannot spiritually. I cannot in  
16 any way. And it is firmly my intention not to honor  
17 it.

18 [Ex. E.] Armstrong was true to his intentions, providing  
19 interviews to the media, testifying as an "expert" witness on the  
20 subject of Scientology, and giving anti-Church litigants  
21 declarations, all in violation of the Agreement's specific terms.  
22 The Church filed a second breach complaint against him for these  
23 activities. The two cases were consolidated, and, on April 5,  
24 1994, the charges were combined into a single, Second Amended  
25 Complaint. [Ex. B.]

26 Armstrong has admitted the conduct alleged, and acknowledged  
27 that he signed the Agreement after consulting with not one but  
28 three lawyers. However, he maintains that the Agreement is  
unenforceable and violates his First Amendment right to free  
speech. It is well-settled, however, that a party may legally  
contract to limit his speech. ITT Telecom Products Corp. v.

1 Dooley (1989) 214 Cal.App.3d 307, 319.

2 In total, the Church seeks liquidated damages of \$1,900,000  
3 from Armstrong, along with compensatory damages for those  
4 violations which do not result in liquidated damages, and a  
5 permanent injunction enforcing all of the terms of the Agreement.

6 Armstrong filed a cross-complaint in the Breach case for  
7 abuse of process, breach of contract, and declaratory relief. On  
8 August 16, 1994, the Los Angeles Court granted the Church's  
9 motion for summary adjudication of the abuse of process and  
10 breach of contract claims. The remaining declaratory relief  
11 action seeks no damages, but merely asks for an adjudication of  
12 the parties' rights under the Agreement.

13 Discovery in the Breach case is ongoing. A motion for  
14 summary adjudication was filed by the Church and will be reset  
15 for hearing in Marin County as soon as the transfer is complete.

16 **B. The Fraudulent Conveyance Case**

17 The Church seeks to secure, pursuant to the Fraudulent  
18 Conveyance Act, Civil Code Section 3439 et seq., substantial  
19 assets which Armstrong admittedly conveyed to defendants Michael  
20 Walton and the Gerald Armstrong Corporation in August, 1990. The  
21 Church claims that it is entitled to recovery under either of two  
22 theories: Either Armstrong diverted his assets "[w]ith actual  
23 intent to hinder, delay or defraud" the Church's collections  
24 [Civ.Code §3439.04(a)], or Armstrong diverted his assets without  
25 receiving any "reasonably equivalent value in exchange for the  
26 transfer," and "intended to incur, or believed or reasonably  
27 should have believed that he would incur," debts to the Church  
28 which were "beyond his ability to pay as they became due."

1 [Civ.Code §3439.04(b)(2)].

2 At the same time that Armstrong was deciding to breach the  
3 Agreement, he knew that with each such breach, he incurred a debt  
4 to the Church pursuant to the Agreement's liquidated damages  
5 provision.

6 Before undertaking wholesale activities to aid other anti-  
7 Church litigants, speak to the media, and attempt to publish his  
8 anti-Church sentiments (all breaches of the Agreement), Armstrong  
9 took precautions. He has admitted that in August, 1990, he  
10 transferred substantial assets to his friend, lawyer, and  
11 roommate, Michael Walton, including a piece of real property,  
12 valued at nearly \$400,000; shares of stock in the Gerald  
13 Armstrong Corporation ("GAC"), which he valued at \$1,000,000; and  
14 \$41,500 in cash. [Ex. E at pp. 542-543 and 545-546.] Armstrong  
15 received no money or other consideration from Walton in exchange  
16 for these assets. [Ex. E at pp. 267-268.] Armstrong continued  
17 to live with Walton in the house which Armstrong had given to  
18 Walton, his roommate. [Ex. F at p. 95.]

19 Armstrong has defended the fraudulent conveyance action by  
20 repeating that he should not be held liable for breaching the  
21 Agreement because the Agreement violated public policy. In  
22 addition, he claims that he cannot be held to have fraudulently  
23 conveyed his assets to others because he was ordered by God to  
24 give away his assets. He has filed a summary judgment motion  
25 concerning the complaint, which is presently set for hearing on  
26 September 9, 1994.

27 In addition, Armstrong filed a cross-complaint alleging  
28 abuse of process. Should the cross-complaint be tried, the

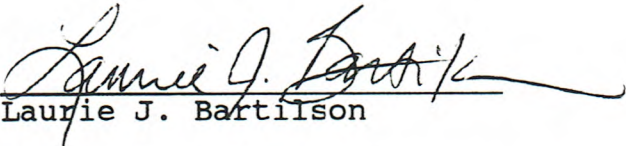
1 issues will be whether CSI abused process when non-party David  
2 Miscavige filed a declaration in another case, or by misusing  
3 discovery obtained in this action. The evidence to the contrary  
4 is conclusive. The Church has filed a motion for summary  
5 judgment demonstrating that the abuse of process claim is  
6 completely without merit. That, too, is set for hearing on  
7 September 9, 1994.

8 **SETTLEMENT DISCUSSIONS**

9 The Church has attempted settlement discussions with  
10 Armstrong, most recently in July, 1994. At that time, Armstrong  
11 was unwilling to agree to abide by the Settlement Agreement which  
12 he signed in 1986. He wanted the Church to repudiate the  
13 Agreement (but permit him to keep the \$800,000 which he received  
14 in settlement), and pay his attorney's fees. The parties were  
15 unable to reach an agreement at that time. The Church remains  
16 ready and willing to settle these cases.

17 Dated: September 2, 1994      Respectfully submitted,

18 BOWLES & MOXON

19  
20 BY:   
Laurie J. Bartilson

21  
22 Andrew H. Wilson  
WILSON, RYAN, & CAMPILONGO

23 Attorneys for Cross-  
24 Defendant  
CHURCH OF SCIENTOLOGY  
25 INTERNATIONAL  
26  
27

PROOF OF SERVICE

STATE OF CALIFORNIA            )  
  )    ss.  
COUNTY OF LOS ANGELES        )

I am employed in the County of Los Angeles, State of California. I am over the age of eighteen (18) years and not a party to the within action. My business address is 6255 Sunset Boulevard, Suite 2000, Los Angeles, CA 90028.

On September 2, 1994, I served the foregoing document described as CHURCH OF SCIENTOLOGY INTERNATIONAL'S SETTLEMENT CONFERENCE STATEMENT on interested parties in this action,

by placing the true copies thereof in sealed envelopes as stated on the attached mailing list;

by placing  the original  true copies thereof in sealed envelopes addressed as follows:

FORD GREENE                               **FAX AND MAIL**  
HUB Law Offices  
711 Sir Francis Drake Blvd.  
San Anselmo, CA 94960-1949

MICHAEL WALTON  
700 Larkspur Landing Circle  
Suite 120  
Larkspur, CA 94939

BY MAIL

\*I deposited such envelope in the mail at Los Angeles, California. The envelope was mailed with postage thereon fully prepaid.

As follows: I am "readily familiar" with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with U.S. postal service on that same day with postage thereon fully prepaid at Los Angeles, California in the ordinary course of business. I am aware that on motion of party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing an affidavit.

Executed on September 2, 1994, at Los Angeles, California.

\*\*(BY PERSONAL SERVICE) I delivered such envelopes by hand to the offices of the addressees.



[ ]\*\* Such envelopes were hand delivered by  
Messenger Service

Executed on \_\_\_\_\_, at Los Angeles, California.

[X] (State) I declare under penalty of the laws of  
the State of California that the above is true and  
correct.

[ ] (Federal) I declare that I am employed in the  
office of a member of the bar of this court at  
whose direction the service was made.

Matt Ward  
Print or Type Name

Matt Ward  
Signature

\* (By Mail, signature must be of person depositing  
envelope in mail slot, box or bag)

\*\* (For personal service signature must be that of  
messenger)